



CIO OFFICE MORNING MARKET WRAP – 14th October, 2021. ALSO AVAILABLE ON ALEXA.

Stocks were well oriented on Wednesday, adding 0.4% on average across regions with the Euro area outperforming. The yield curve continued to gently flatten: the 10-year Treasury yield lost 4 basis points to 1.54% while the 5-year was unchanged at 1.07%. The price of Brent crude oil didn't rise, closing just below \$84.4, despite the trade-weighted dollar moving down -0.3%.

The key economic data of yesterday was the US Consumer Price Index for September. The monthly increase in prices was slightly higher than expected at +0.4%, which is consistent with our own anticipation from yesterday's daily notes. Half of the increase was due to food and rents, the latter printing its sharpest monthly increase in 5 years. The market reaction was however not negative, as the situation is well known – the year-on-year CPI increase stands at 5.4% now. The other important release was the minutes of the September FOMC meeting, but there was actually nothing new. The Fed should announce tapering at its November meeting, conditioned to the recovery still being on track – which it is. The actual reduction of asset purchases should then start either in November or December, with a \$15 billion reduction every month, of which 2 thirds in Treasuries and the remaining in mortgage backed securities. The central bank is currently buying \$120bn every month, so theoretically at this pace asset purchases could come to an end after 6 months of actual tapering. The Fed keeps on thinking that inflation is transitory, although they raised their medium term outlook for prices. In a totally different context, three members of the Turkish central bank rate-setting panel were fired yesterday, pushing the lira to another record low, close to 9.20 for one US dollar.

Bottom-line, yesterday's CPI and FOMC minutes didn't bring new elements to the backdrop but more a confirmation of what we already know. Thus, market participants are basically assessing the resilience of growth to supply-chain disruptions and the ability of markets to digest tapering. Our stance is unchanged: inflation pressures are a result of robust economic expansion, so we believe that the future is a combination of elevated inflation with even faster growth. As the reopening spreads and normalizes, supply chain issues will be solved over time. It will take longer than initially expected, but it's not all bad news for 2022. Tapering has been well communicated and shouldn't shock markets, especially as we believe that this is certainly not the end of the global "magic money".

Meanwhile in the corporate world, the Q3 earnings season has just started and year on year increases in sales and profits are spectacular, but obviously not unexpected. Rather than just numbers, we will pay attention to management guidance and in particular how companies react to price pressures and to supply chain bottlenecks.

As we write,, the morning session is overall positive in Asia. Stocks are up 1% in Japan and South Korea but slightly down in onshore China. Hong-Kong markets are closed for a holiday. The US 10-year remains well below 1.6% and oil prices are only marginally up. Action is in the crypto sphere with bitcoin trading at 58k.

Today we will look at earnings reports from US financials, including Bank of America, Morgan Stanley and Citi. There is no major economic release but weekly initial jobless claims in the US are always interesting in the current context.

Stay safe.

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